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# **WATER POLLUTION CONTROL REVOLVING FUND FACT SHEET**



## **Water and Wastewater Assistance**

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Department of Local Affairs  
1313 Sherman Street, Room 521  
Denver, Colorado 80203  
303-866-2156  
[www.dola.state.co.us](http://www.dola.state.co.us)

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## **INTRODUCTION**

The WPCRF is a low-interest loan program for funding publicly owned wastewater treatment works and eligible pollution control projects. Created by Title VI of the 1987 amendments to the federal Clean Water Act and the State Legislature, it has replaced the Federal Construction Grant Program. Between the program's inception and December 2002, the U.S. Environmental Protection Agency has provided \$159.8 million in capitalization grants which must be matched with an additional 20% from the state. These funds, along with a fairly aggressive leveraging program, have allowed the fund to make in excess of \$496 million in loans. The fund can cover up to 100% of the eligible project costs with terms of up to 20 years.

The WPCRF provides a low-cost means of financing wastewater projects to meet the requirements of the Clean Water Act at a time when other financial assistance is dwindling. The WPCRF program is administered through a partnership between the Colorado Department of Local Affairs, the Colorado Department of Public Health and Environment through the Colorado Water Quality Control Division (WQCD), and the Colorado Water Resources and Power Development Authority (Authority). One representative from each of these entities form the WPCRF Committee, which makes recommendations to the Authority Board on loan requests.

For more information or for more DOLA Local Government Services Assistance Guides see the department's web site at [www.dola.state.co.us](http://www.dola.state.co.us) and click on Information and Publications.

## **Eligible Government Agencies**

Eligible entities include governmental agencies (i.e., municipalities, counties, and special districts) that first are listed on the Project Eligibility List. Ranking of eligible projects is determined by the WQCD using criteria detailed in the WPCRF rules. A Project Eligibility List is adopted by the Water Quality Control Commission and approved by joint resolution of the State Legislature. The Eligibility List includes projects that have (or are anticipated to have during the funding year) an approved 201 facility plan, feasibility study for small communities, sludge management plan, or non-point source implementation plan. Projects on the Eligibility List may be financed out of priority order in accordance with the WPCRF Rules.

Once a community has been included on the Eligibility List, they will be contacted by the WQCD. The WQCD acquaint applicants with the procedures for assistance from the WPCRF, assist in preparation of loan applications, and coordinate the review of all supporting environmental and technical documentation. In addition, the WQCD will assure that projects comply with all applicable state and federal requirements, provide technical reviews, determine eligible costs, monitor project expenditures, and maintain project files.

## **Uses of Funds**

- Provide loans for planning, design and construction of eligible wastewater treatment works, nonpoint source projects, beneficial use, and water conservation projects.
- Purchase or refinance debt from governmental agencies on eligible construction started after March 7, 1985.

## **Loan Origination Procedures**

- Step 1:** Application packages will be distributed by the WQCD (which serves as the primary contact for a loan applicant) to all interested agencies on the eligibility list for the current funding year.
- Step 2:** Potential borrowers will return the completed applications, with appropriate supporting documentation, to the WQCD for review and approval.
- Step 3:** DOLA will perform a financial analysis and make recommendations to the WPCRF Committee. The WPCRF Committee will then vote to forward the recommendations to the Authority's Project Finance Committee.
- Step 4:** If accepted the Authority will determine whether or not the borrower is qualified for the leveraged-loan pool or the direct loan pool.
- Step 5:** The Authority Board will consider the application, and will notify the applicant of acceptance or rejection.
- Step 6:** Borrowers will initiate local level approval process and present legal evidence of ability to enter into a loan agreement with the Authority. Borrowers will provide the additional disclosure information required by the Authority's legal counsel.
- Step 7:** The Authority will finalize the documents, and adopt the bond resolution. At closing, borrowers will enter into a loan agreement with the Authority; all necessary closing documents will be executed.

## Financial Analysis

Once the Eligibility List has been adopted by the state legislature and an application has been approved by the WQCD, DOLA will perform a financial analysis of the governmental agency proposing the project. This analysis will result in categorizing the project into one of 3 groups.

- **Investment grade** - the project is eligible for a loan from the "leveraged pool" of funds. This pool is generally for larger projects and uses a reserve fund to "buy down" the interest rate on the loan.
- **Non-investment grade** - the project is eligible for a direct loan from the WPCRF. These loans are generally for small communities with projects costing under \$1,000,000. There is a standard loan rate of 3.5%.
- **Poor loan risk** - the agency proposing the project is determined to be a poor loan risk. It is targeted for technical assistance to improve its credit-worthiness and becomes a candidate for potential grant assistance under programs other than WPCRF.

### Criteria for rating

- **Investment grade**. Agencies will be determined to be in this category based on recent debt history. If the most recent bond issue was assigned a Baa or better rating by Moody's or BBB or better rating by Standard and Poor's, it will be assumed that this rating will apply to a new issue. An agency disputing this rating has the option of requesting a new rating or preliminary rating at its own expense. The results of this new rating will then determine the agency's categorization.
- **Non-investment grade**. Agencies will fall into this category automatically if they do not fall into either of the other two categories.
- **Poor loan risk**. Agencies in this category are determined to be incapable of repaying a loan with the confidence necessary to maintain the integrity of the WPCRF. DOLA will use audited financial records, information from the application, and other information to make a judgment on an agency's ability to repay a loan. This judgment will derive from examination of such issues as:
  - general management practices
  - O & M practices
  - financial planning
  - personnel and purchasing policies
  - governing body stability
  - current fund balances as % of operating expenses
  - existing and proposed debt burden
  - rate structure and policy
  - tap and plant investment fees

- median household income
- population stability
- economic trends
- legal analysis

## **Structure and Security**

The Authority uses available funds, EPA grants, along with bond proceeds to make loans to local governments.

The Authority and borrowers enter into a loan agreement which establishes a required loan repayment schedule.

Borrower's obligation to repay loans will be similar to those associated with a bond issue. Loans can be secured by a general obligation pledge or a revenue pledge of the borrower.

A revenue pledge loan, under certain conditions, may be subordinated to the repayment of the borrower's other revenue bonds.

There will be no cross-collateralization or cross-defaults among borrowers. Each borrower is only responsible for its own loan.

## **Benefits**

The three agency partnership offers the advantages of centralized borrowing and technical assistance in both environmental compliance and financial administration.

Reduces costs of issuance and ongoing borrowing costs through economies of scale and interest rate subsidies provided by the program. Pooling several small loans into a larger bond issue also allows the Authority to negotiate better fees on behalf of the borrowers. Additionally, disclosure requirements may be simplified due to the pooled structure of the program.

Allows a very broad spectrum of potential borrowers to participate because the program is designed to include all local governments within the state.

Allows local governments to issue revenue bonds on a subordinate lien basis (with conditions), so that burdensome limitations imposed by existing legal documents may be avoided.

No rating agency presentations are required.

The Authority has an experienced financing team in place, which will further simplify and reduce the cost of the program to the borrowers.

## **State Agency Contacts**

**The Water Quality Control Division** of the Department of Public Health and Environment is the primary contact for loan applicants and is responsible for coordinating the eligibility list. It also provides technical assistance in environmental compliance and environmental reviews. Information on applications or the water quality aspects of your project can be obtained by contacting Donna Davis at the Water Quality Control Division, (303) 692-3562.

**The Department of Local Affairs** is responsible for assessing financial need and analyzing the applicant's financial condition. DOLA is available to provide technical assistance in budgeting, financial planning, rate analysis, capital improvement plans, etc. For assistance in these areas, contact Barry Cress at the Department of Local Affairs, (303) 866-2352.

**The Colorado Water Resources and Power Development Authority** provides the State's 20 percent match by using available funds or by issuing revenue bonds and is responsible for the administration and management of the financial aspects of the revolving fund. All loan agreements will be executed between the governmental agency and the Authority. For information regarding program specifics, contact Mike Brod, Finance Director at the Colorado Water Resources and Power Development Authority, (303) 830-1550, x15.